STATEMENT OF JANE F. GARVEY, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION, BEFORE THE SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION, SUBCOMMITTEE ON AVIATION, ON THE REAUTHORIZATION OF FAA PROGRAMS AND ON RECOMMENDATIONS OF THE NATIONAL CIVIL AVIATION REVIEW COMMISSION, APRIL 30, 1998.

Good afternoon, Mr. Chairman and Members of the Subcommittee.

I welcome this opportunity to testify today on the reauthorization of Federal Aviation Administration (FAA) programs, and implementation of the recommendations of the National Civil Aviation Review Commission (NCARC). First, Mr. Chairman, I would like to thank you and the Members of the Committee for your strong support of the FAA and its programs. Although we have much to be proud of, numerous studies of our aviation system over the past five years, most notably the reports of the White House Commission on Aviation Safety and Security and the NCARC, have yielded both a detailed diagnosis of the problems that confront us as well as a comprehensive prescription for reform. In order to ensure the continued, vibrant growth of the aviation community, it is now time to use those analyses, allow them to guide our decisions about the FAA's future, and take the necessary legislative and administrative steps to get us there.

Today, I would like to outline briefly how we in the Administration would chart the course for the FAA's immediate future. Last week, Secretary Slater and I, joined by Former Representative Norm Mineta, who ably chaired the National Civil Aviation Review Commission (NCARC), announced the Administration's two proposed bills to reauthorize FAA programs for the next four years and to implement NCARC's recommendations. As you know, NCARC was established by Congress and comprised of experts from both the aviation and financial communities. We owe a debt of gratitude to the Chairman and the members of the Commission. We have built on their work with our Administration proposals, which have at their core the principles of NCARC's report.

Together, the Administration's proposals identify the steps necessary to restructure the FAA to meet this country's short and long-term aviation needs. They are designed to assure a National aviation system that is safer, more efficient, and better able to meet the future demands of our domestic economy and enhance our participation in the global marketplace.

First, I would like to outline some of the elements of our reauthorization proposal and then turn to our proposed legislation to implement specific NCARC recommendations.

One of the Administration's major priorities continues to be strong investment in our transportation infrastructure. The benefits of that investment reverberate throughout our economy. And I know Congress shares that priority. We have seen recently how strong that shared commitment is during the ongoing debate and action on the reauthorization of surface transportation programs under ISTEA. That commitment to investment is also reflected by the President's budget for airport development.

Our FAA reauthorization proposal for the Airport Improvement Program (AIP) and passenger facility charges (PFCs) sets out to achieve 3 basic goals: increasing infrastructure investments at airports of all sizes to meet the transportation needs of the National airport system today and tomorrow; enhancing the ability of the Federal government to target AIP investments to critical safety, security, and capacity needs; and ensuring an adequate level of Federal support to help airports and communities mitigate the effects of aircraft noise.

We propose an investment for the Nation's airports at a level of $1.7 billion annually for the next four years. In addition, in order to increase the investment options available for airports and build on the effective role PFCs have played in airport development, particularly at large and medium hub airports, we propose an increase in the cap on PFCs from $3 to $4. PFCs are currently being collected at the rate of approximately $1.2 billion annually. An extra $1 would increase this figure by over $400 million each year.

Under our proposal, if a large or medium hub airport elects to impose a $4 PFC, the airport would forego all of the AIP passenger entitlement funds to which it would, under current law, be currently entitled. These airports would continue to remain eligible for AIP cargo entitlements and discretionary funds. These foregone entitlements, which could produce as much as $150 million annually, would be reallocated to the Nation's smaller, financially needier airports using the current formula, which makes additional Federal assistance available to meet safety and development needs at these facilities.

A $1 PFC increase, combined with an AIP level of $1.7 billion and current PFCs, will create, over the four-year term of this proposal, over $15 billion in capital investment funds for the

Nation's airports. Further, it ensures that all airports, regardless of size or financial capability, will have access to additional capital resources to meet growth requirements.

We are proposing two formula changes in order to target more effectively AIP investments to critical safety, security and capacity projects. The first change would remove the current $300 million cap on discretionary funds. This formula change, in conjunction with the second, will increase the amount of discretionary funds for high-priority safety, security, and capacity projects by approximately $60 million. FAA would continue to employ a variety of investment tools, such as the National Priority System and benefit-cost analyses, to ensure that discretionary funding goes to the projects that most benefit the safety and efficiency of the National aviation system. The second change would make a modest adjustment in the funding formula to increase the amount of AIP funds allocated to the noise set-aside fund to ensure that at least $200 million is available for noise mitigation and planning. Meeting the noise mitigation goals of the Nation's airports is an essential part of developing community confidence and support for airport operations.

We also propose to continue exploring ways to make Federal AIP dollars go farther, by extending and expanding the current innovative finance demonstration program. In its 1996 reauthorization, FAA was granted authority to select up to ten projects that utilized any of three innovative financing tools – use of AIP dollars for payment of interest, municipal bond insurance, or use of a flexible non-Federal match amount. We would like to have the ability to select an additional ten projects, as well as to test one additional innovative financing tool that would be used by qualified State Block Grant program participants to establish revolving loan funds with AIP.

Our experience with the first projects selected under the innovative financing demonstration program illustrates the utility of having a flexible non-Federal match in terms of making the most of Federal funds, encouraging new forms of local partnerships, and in accelerating projects. Based on these favorable results, FAA is also proposing that State Block Grant states be given the flexibility to use "up to 90%" Federal funding, instead of the currently mandatory 90% Federal share.

With regard to our other accounts, in fiscal year 1999, we propose to increase funding for FAA Operations by 5.5 percent to $5.6 billion, which will allow us to hire additional air traffic controllers, maintenance technicians, and safety and certification personnel. We also plan to continue our efforts to improve aviation safety and security by developing information-sharing partnerships and critical safety rulemakings aimed at reducing the total accident rate.

The Committee is familiar with our efforts to modernize our air traffic services. I will not need to spend time describing in detail our activities in that area, except to note that, in order to keep modernization on track, we propose a $2.1 billion funding level for Fiscal Year 1999, reflecting a 14 percent increase over last year, for FAA's Facilities and Equipment (F&E) budget. This funding will upgrade existing systems, providing the platform for new automation tools and enhancements that will allow us to safely accommodate the expected growth in aviation operations in the coming years.

With regard to the FAA's research and development activities, we propose a significant increase in our Research, Engineering and Development (R,E&D) budget for Fiscal Year 1999 to fund the FAA's Flight 2000 program, which will provide a real-world operational test—or "dress rehearsal"--of the advanced technologies, procedures and human factors involved in modernizing our air traffic control system. Our R,E&D budget will also allow us to continue important research aimed at reducing the number of accidents that result from human factors, and support a network of research partnerships with industry, other government agencies, and colleges and universities.

I would like to turn now to our second proposal, the "Air Traffic Services Improvement Act of 1998." Along with reauthorization this year of the important FAA programs I described above, we have an opportunity to build on the success of recent personnel and acquisition reforms at the FAA, and provide what we like to call the "third leg of the stool"--the financing flexibility we need to support critical air traffic services. The National Civil Aviation Review Commission presented very specific recommendations in December 1997 to change the aviation *status quo.* Absent such change, NCARC found that the delays and congestion in the aviation system could become overwhelming and the anticipated growth in aviation could be stunted. Without a stable funding source, FAA's air traffic services (ATS) organization would continue to live hand-to-mouth, possibly jeopardizing the modernization of the ATS system. And, without management reform, the FAA could remain disconnected from its customers' needs.

Not one of us in the aviation community wants to see that scenario come true. We in the Administration are committed to working with Congress and our partners in industry and labor to change the *status quo* in order to enhance the safety, security and efficiency of our aviation system. Two weeks ago, with Vice President Gore, we announced our focused safety agenda which sets forth our strategic plan for achieving the accident reduction goals established by both the White House Commission on Aviation Safety and Security, and the NCARC. And last week, we presented to Congress our legislative proposal in support of NCARC's fundamental management and financing recommendations for our agency.

Our draft legislation includes five key elements. All five support the NCARC recommendations:

First, FAA's budget treatment must change. In order to ensure that FAA expenditures match aviation demand for services, with this legislation, the FAA's funding and financing system will receive a Federal budget treatment for air traffic services (ATS) that ensures that fees from aviation users and spending on aviation services are directly linked. We accomplish this by exempting the user fee financed portion of air traffic services from discretionary budget caps and by creating a third budget category that links user fees and spending for ATS. The Commission recognized that a change in FAA's budget treatment is the foundation for all its remaining recommendations. Along with management reforms, this new approach will prompt new efficiencies in ATS service and provide the foundation for needed growth in capital infrastructure.

A second key element of our proposal is that FAA management must become performance based. The Commission recommended that the FAA operate its air traffic services in a more business-like manner. The air traffic control system is an integral part of the aviation system, controlling the efficiency of a multi-billion-dollar industry. It is unique in government in that it is the only 24-hour- a-day, 365-day-a-year, government operation that is directly and actively involved in the minute-by-minute activities of an entire industry. The men and women of the FAA who provide around-the-clock daily civilian air traffic services for domestic and international aircraft operations need the operational flexibility and financial stability to respond to the dynamic industry they serve. Because those in the aviation business rely so directly on the FAA for services, we in government must in turn become more customer-oriented. That is, we must be able to identify our costs, know what our customers need, and respond creatively and rapidly to those needs.

Therefore, we embrace the Commission's recommendation to restructure the FAA's air traffic services organization, along with related FAA functions, such as research, into a performance-based organization (PBO). Under our proposal, we would establish an ATS PBO, beginning in January 1999, to govern daily operational air traffic services, except for those areas delegated to the Department of Defense (DOD), consistent with existing relationships. The PBO would be headed by a Chief Operating Officer who would be directly accountable for the performance of the organization. Generally, daily activities would include operating and maintaining the air traffic control system infrastructure, in close coordination with DOD, as well as conducting research and development activities, hiring all personnel, purchasing needed equipment, implementing a cost accounting system and other management systems that promote results-oriented performance, developing proposed fee schedules, and collecting fees. Because the PBO is intended to be a results-oriented organization, its Chief Operating Officer would be bound by an annual performance agreement that outlines measurable organizational and individual goals in key operational areas, and provides appropriate incentives for achieving those goals.

The PBO would have the same personnel and acquisition authorities that the FAA has; our FAA employees who provide ATS services would remain Federal employees, with the same rights and benefits as other FAA employees; and existing labor agreements would remain in place. A newly created subcommittee of the Management Advisory Council (MAC) would oversee and provide advice to the PBO. The membership of the MAC will include 13 individuals representing aviation and business interests. Nominations for these appointments, which require Senate confirmation, should be announced soon.

In addition, our proposal would, consistent with current law, practice, and existing relationships with other Governmental agencies, provide that the FAA Administrator retains final authority over air traffic actions and decisions of the ATS PBO that affect aviation safety and security, as well as National security, and over Federal policies with government-wide impact, such as the National Environmental Policy Act (NEPA). We believe that this strikes the proper balance between the Administrator’s authority and the PBO’s authority to control and manage the daily operation of the air traffic control system. Details of the relationship between the PBO and the FAA would be spelled out in a written delegation from the Administrator.

This approach not only implements NCARC's recommendations, it is also in keeping with National Performance Review objectives to make government more performance-based and responsive to the needs of the public—in the FAA's case, that means air carriers, private and public aircraft operators and air travelers.

Third, FAA's revenue stream must become more cost based. Both the Commission and the Administration believe that a cost-based system of charges will bring about significant management improvements and focus PBO efforts on providing tailored, technologically advanced and efficient services that squeeze every penny of value out of fees paid. Under our draft legislation, air carriers will pay cost-based user fees, to be initiated by May 15, 2000, and deposited in a separate "ATS Fund." That Fund will hold both the new user fees that will primarily finance the PBO, along with appropriation of necessary excise taxes deposited in the Airport and Airway Trust fund to make up annual shortfalls (owing to the fact that government, military and general aviation would be exempt from fees, consistent with the NCARC approach). As I noted above, the user fee portion of the ATS Fund would enjoy unique budgetary status, allowing all new user-fee receipts to finance appropriated spending without impact on the overall budgetary picture—including sequestration and spending caps. Under this favorable budgetary arrangement, the PBO would be free to identify and acquire advanced new technology without the constraints of annual budget caps. General aviation will continue to pay fuel taxes, with those taxes available to be appropriated from the Trust Fund to the PBO.

In addition, the other aviation excise taxes would continue but at reduced rates to fund non-PBO aviation costs, covering safety, security, and airport improvement. The amount by which aviation excise taxes should be lowered because of new user fees will be clearer after the ATS PBO has been established, the FAA's new cost-accounting system is in place, and the initial user-fee schedule has been made final and sent to Congress. We should also know then how funding for other FAA programs, unrelated to the ATS functions, will be affected by the establishment of the PBO.

A fourth key element of our proposal is that FAA must control its operating costs and increase capital investments. The FAA is already addressing these objectives by putting into place a comprehensive cost-accounting system. That effort is well underway, with phased implementation planned to begin October 1. Coupled with the new budget treatment I have described, we should be able to better manage our operating costs while increasing our capital investments.

The final key element of our proposal is that airport capital financing needs must be met. We could not agree more with NCARC — the Airport Improvement Program is the linchpin of airport financial planning. As I noted above, our reauthorization legislation calls for strong

Federal investment in the Nation's airports at a level of $1.7 billion a year. This robust program, coupled with an increase in passenger facility charges, will provide the resources for critical infrastructure investments.

These five key elements of NCARC's report provide us with the recipe for a successful future. NCARC also provided us with something rare—a consensus. We must take advantage of that and use this opportunity to design a future FAA that will better serve the aviation community. The Administration's proposals set us on that course.

Mr. Chairman, we must move forward now toward change and reform, and away from the *status quo* and potential gridlock. There are some who believe that change will not happen unless there is some immediate crisis. I disagree. Our proposals are designed to help avert future crises, and I am optimistic that Congress will respond positively. Our bill to implement NCARC recommendations, while presented by the Administration, in fact represents the broad consensus that NCARC achieved. And, the process that led to this consensus about the future direction of the FAA was, as you know, initiated by Congress. With NCARC's recommendations as a foundation, we can transform the air traffic services system into a performance-based organization that will be a model for the rest of the FAA and government. That reform, together with reauthorization of critical FAA safety and security programs and strategic investment in our airports, will enable us to achieve a safe, efficient and modern National Airspace System. I look forward to working with this Committee and our partners in the aviation community to accomplish this challenging legislative agenda.

That concludes my prepared remarks. I would be happy to answer your questions.